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Economics

It's Reform or Ruin for Lebanon

The country's political elite resists change, but growing anger about the economy could force a reckoning.

By Hussein Ibish

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He's already had a haircut. Photographer: Joseph Eid/AFP

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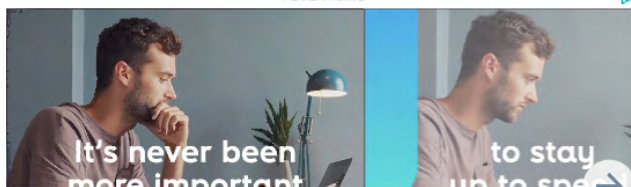
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Against all the odds, Lebanon has managed to contain the impact of the coronavirus pandemic, at least for now. But few Lebanese are feeling much relief. Instead, protests are once again flaring as the economy continues to tailspin – with no serious plan to save it.

Lebanon faces mounting currency and debt crises; the Lebanese pound has halved in value since last October, when antigovernment street demonstrations first erupted. Back then, protesters were angry about mismanagement and corruption, and demanding economic and political reforms. Now the situation has deteriorated to the point that the protests are more about hunger than anger.

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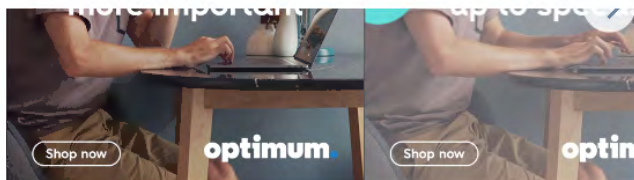
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The political elites are bickering among themselves and appear to have no workable plan to get out of the crisis. Many wealthy Lebanese are simply fleeing, along with billions in capital. The government and its supporters have attempted to scapegoat Riad Salameh, governor of the Lebanese central bank, for the plunge in the value of wages and savings. The pound lost 12% of its value in a single day last week.

But Salameh has fired back, saying he has done nothing without the full knowledge and approval of the political leadership, and demanding accountability for government spending.

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While politicians and economists have mulled the prospects of a “haircut,” whereby depositors and creditors lose a percentage of their holdings, this has already happened to the public at large because of the collapse in the currency. Lebanese feel they are, in essence, being beggared by the combined impact of rapid devaluation and rampant inflation on almost all basic goods. Before the coronavirus outbreak, the World Bank estimated that 45% of the Lebanese population would be below the poverty line. The government now says 75% of the population needs direct support.

No one thinks Salameh and the central bank are blameless, but he's obviously right they are functionaries. The government, now entirely controlled by Hezbollah and its closest allies, has been resisting the only possible route to salvage the economy: a bailout from the International Monetary Fund, supported by other international lenders.

But if the Lebanese state and ruling elite want to avoid a complete social collapse, that may be their only option.

Many Lebanese are losing their patience. Earlier this week, violent demonstrations erupted in the northern city of Tripoli, with demonstrators attacking banks. (Because of a critical shortage of dollars, ordinary depositors are often unable to access their savings.) The protests have since spread to other cities, including the capital Beirut. There is little doubt they intensify.

The desperate state of the country was vividly illustrated by a telling exchange between protesters and security forces in Tripoli. When the demonstrators chanted that they were hungry, some officers replied, “We are hungrier than you.” The demonstrators responded, “Then what’s stopping you? Join us.”

For the moment, the security forces are doing the government’s bidding. But as hopelessness grows, institutions will fall apart.

The ruling circles, and above all Hezbollah, are resistant to reforms that would require them to give up the elaborate sectarian patronage networks that undergird Lebanese politics. But the IMF has made it clear that any bailout will come with significant strings attached.

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Even Hezbollah knows they will have to do a deal with the Fund. But it will try to keep reforms to a minimum and ensure that they are strictly economic and not political. It may countenance some politically painful and even risky austerity measures including cuts in government jobs and wages, but it will fight – literally – to prevent real changes to the structure of decision-making, especially reforms that draw the country away from its sectarian and communal spoils system. If reform comes, political elites will devote all their energies to protecting their own slice of the patronage pie with little thought for anyone else.

The moment of truth is fast approaching for Prime Minister Hassan Diab, President Michel Aoun, their Hezbollah backers and the ruling elites in general. Estimates by experts such as former economy minister Nasser Saidi suggest they will need to borrow up to \$25 billion in the next five years.

Other sources of funding, such as the oil-rich Gulf countries that have occasionally propped up the Lebanese economy, will not suffice. In any case, the pandemic and the collapse of oil prices have constrained their ability to help.

So, Lebanon's ruling circles find themselves checkmated between the unsustainable political situation, exemplified by the increasingly angry protests, and unpalatable economic reforms. Soon, they will have to pick their poison.

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